

Escaping the Middle-Income Trap in Sub-Saharan Africa: Institutions, Firm Dynamics, and Spatial Development in Kenya's Stalled Transition

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ABSTRACT

This paper examines why Kenya, one of Sub-Saharan Africa's longer-standing lower-middle-income economies, has struggled to progress beyond an investment-led growth model toward the technology-infusion and innovation stages described in the World Bank's World Development Report 2024 (Behuria & Sumner, 2025). Drawing together Daron Acemoglu and James Robinson's institutional theory of comparative development, Ufuk Akcigit's work on firm dynamics and misallocation in developing economies, and Somik Lall's research on African urbanization, the paper develops an integrated framework linking political institutions, firm-level productivity dynamics, and spatial organization to the persistence of the middle-income trap. It argues that Kenya's difficulty in completing the transition from a one-lever ("1i") investment strategy to a two-lever ("2i") investment-and-infusion strategy, and its still more distant prospects for a three-lever ("3i") innovation-augmented strategy, should be understood not primarily as a failure of policy design but as a downstream consequence of political-economic arrangements whose extractive features were established during the colonial period and have been substantially, if unevenly, reproduced since independence. These arrangements manifest concretely in a "missing middle" of firms unable to scale past small size (Deconstructing the Missing Middle: Informality and Growth of Firms in Sub-Saharan Africa, n.d.), weak competitive selection that shields politically connected incumbents (Systematic Country Diagnostic, n.d.), and cities that remain comparatively closed to regional and global trade. The paper concludes with policy implications for the sequencing of institutional reform in Kenya and comparable Sub-Saharan African economies, and it identifies avenues for further comparative and firm-level empirical research.

Keywords: middle-income trap; institutions; Sub-Saharan Africa; Kenya; firm dynamics; urbanization; economic development.

INTRODUCTION

Over the past two decades, a substantial number of Sub-Saharan African economies have crossed the World Bank's threshold separating low-income from lower-middle-income status. Kenya, Ghana, Côte d'Ivoire, Nigeria, Cameroon, Zambia, and Senegal, among others, now sit within an income band bounded, for the 2027 fiscal year, by roughly \$1,176 and \$4,635 in GNI per capita using the World Bank's Atlas method (World Bank Data Help Desk, n.d.). Reaching this threshold is frequently celebrated domestically as evidence of developmental progress. Yet the World Bank's World Development Report 2024: The Middle-Income Trap documents a far less encouraging pattern at the global level: since the 1990s, only 34 middle-income economies have advanced to high-income status, while 108 remained classified as middle-income at the end of 2023, and the median income per capita of middle-income countries has, since 1970, never exceeded roughly one-tenth of the United States level (World Bank, 2024).

This paper asks why Kenya, a country whose 2010 constitutional reform, relatively diversified economy, and globally recognized mobile-money innovation might have suggested a more favorable trajectory, remains firmly lower-middle-income with an Atlas GNI per capita of approximately \$2,200, still less than half of the roughly \$4,600 threshold for upper-middle-income status (Breaking Kenya News, 2026; World Bank Data Help Desk, n.d.)(News, 2026). Kenya's own Vision 2030 development blueprint set upper-middle-income status as a national target; independent assessment has described that ambition, on the basis of the country's historical growth performance, as "far-fetched" (Africa, 2022). The question is not merely descriptive. It bears on how researchers and policymakers ought to diagnose stalled development in the growing set of Sub-Saharan African economies that now share Kenya's intermediate income position.

The explanation advanced here integrates three literatures that are rarely brought together in a single applied framework. The first is Daron Acemoglu and collaborators' body of work on institutions as the fundamental cause of comparative development, which traces contemporary economic outcomes to the character of political and economic institutions and, in the African context specifically, to colonial-era institutional choices and their post-independence persistence (Acemoglu et al., 2001). The second is Ufuk Akcigit and coauthors' work on firm dynamics, market selection, and the misallocation of resources across firms of differing productivity in developing economies, which offers a micro-level mechanism through which weak institutions translate into slow aggregate productivity growth (Akcigit et al., 2020). The third is Somik Lall and coauthors' research on African urbanization, which identifies the institutional and infrastructural closedness of African cities to regional and global trade as a further, spatially specific channel through which the middle-income trap is reproduced (Lall et al., 2017).

The paper's contribution is to show that these three literatures are not competing explanations of the middle-income trap but complementary layers of a single causal chain: political institutions shape the incentives facing firms and the rules governing urban land and infrastructure; firm-level selection and reallocation efficiency determine whether an economy can move from importing capital to absorbing ("infusing") foreign technology; and the spatial organization of cities determines whether that absorption can occur at the scale and density required for productivity growth. Kenya is used as an illustrative case not because it is representative of all Sub-Saharan African middle-income economies, but because the density of available evidence and its own well-documented institutional history make it an unusually clear lens through which to examine the mechanism. The paper proceeds as follows. Section 2 sets out the institutional framework. Section 3 reviews the WDR 2024 middle-income trap diagnosis. Section 4 introduces the firm dynamics literature. Section 5 addresses spatial development. Section 6 applies the integrated framework to Kenya. Section 7 offers a synthesis, Section 8 draws out policy implications, Section 9 discusses limitations, and Section 10 concludes.

THEORETICAL FRAMEWORK

Institutions and the Political Economy of Comparative Development

(Acemoglu & Robinson, 2012) distinction between inclusive and extractive institutions provides the paper's organizing theoretical claim: nations prosper when political institutions distribute power broadly enough to support economic institutions that protect property rights, enforce contracts impartially, and permit open entry into markets and occupations; nations stagnate when political power is concentrated in a narrow elite that structures economic institutions to extract resources from the wider population. Crucially, the two forms of institutions reinforce one another. Inclusive political institutions tend to sustain inclusive economic institutions because a broad distribution of power makes it costly for any single group to capture the state for extractive purposes; extractive political institutions tend to sustain extractive economic institutions because a narrow elite has both the means and the incentive to protect the rents that concentrated power secures for it. This dynamic complementarity, rather than any single policy failure, is what (Acemoglu & Robinson, 2012) describe as a country's tendency toward a "vicious" or a "virtuous" circle.

The empirical foundation for treating institutions as a cause of development outcomes, rather than merely a correlate of them, comes from (Acemoğlu et al., 2001) analysis of colonial settlement patterns. Where European colonizers faced high mortality risk from disease, they tended not to settle in large numbers and instead built extractive administrative structures designed to transfer resources to the metropole with minimal investment in broad-based institutions; where mortality risk was low, Europeans settled more densely and tended to transplant institutions similar to those in Europe, including stronger protections for property and political voice. Because these early institutional choices are shown to have persisted well beyond the colonial period, the mortality-driven variation allows the effect of institutions on income to be estimated with less contamination from reverse causation than cross-sectional correlations alone would allow. A companion study, Acemoglu, Johnson, and Robinson (2002), extends the argument temporally: societies that were relatively prosperous and densely populated prior to European contact frequently experienced a "reversal of fortune," as their existing populations and resources made extractive colonial institutions more, rather than less, attractive to install (Acemoğlu et al., 2002). Much of Sub-Saharan Africa, including the territory that became Kenya, falls into a category where high settler mortality combined with extractable resources and existing population density produced institutions oriented toward resource extraction rather than broad-based market development (Acemoğlu et al., 2001).

A further, more geographically proximate contribution is (Acemoğlu et al., 2014) study of chieftaincy institutions in Sierra Leone, which shows how colonial-era indirect rule entrenched the discretionary authority of local chiefs over land allocation and dispute resolution, weakening the civil society organizations and competitive local politics that might otherwise have constrained elite power. The relevance for the present paper is that many Sub-Saharan African states, Kenya included, inherited hybrid institutional structures in which customary and statutory authority over land and local governance coexist uneasily, producing exactly the kind of ambiguous, discretionary property rights environment that (Acemoğlu & Robinson, 2012) identify as characteristic of extractive economic institutions. Independence did not automatically resolve this ambiguity; in many cases, post-independence political elites found it advantageous to preserve or repurpose colonial-era discretionary authority over land, licensing, and public employment as instruments of patronage politics, a pattern documented across much of the region and, as Section 6 discusses, clearly visible in Kenya's own political history.

It is worth stating explicitly what this framework does and does not claim. (Acemoğlu & Robinson, 2012) reject geographic and cultural determinism, and they emphasize that institutional trajectories are not fixed: "critical junctures," such as major constitutional reforms, can open space for a shift from extractive toward more inclusive arrangements, though such shifts are neither automatic nor guaranteed to persist. This qualification matters for the Kenyan case, where the 2010 constitution represents precisely this kind of contested critical juncture, as discussed below.

The Middle-Income Trap and the World Development Report 2024 Diagnostic

The World Development Report 2024 reframes the middle-income trap in terms of the policy mix that a growing economy requires at successive stages of development (Bank, 2024). Low-income countries, in this framework, can generate substantial gains simply by raising the rate of capital investment, a "1i" strategy. Once an economy reaches lower-middle-income status, however, the marginal returns to investment alone begin to decline, and further growth requires a second lever: "infusion," defined as the deliberate importation and domestic diffusion of technologies, managerial practices, and organizational know-how already in use elsewhere in the world, producing a "2i" strategy. Upper-middle-income countries, in turn, must add a third lever, "innovation," in which the economy begins to generate technologies and practices at or near the global frontier rather than merely absorbing them, yielding a full "3i" strategy (Bank, 2024).

Two further elements of the WDR 2024 diagnosis are directly relevant to the present argument. First, the report devotes a chapter to what it terms "structural stasis," the tendency of resources, capital, land, and labor to remain locked into low-productivity uses even as aggregate investment rises, because the reallocation mechanisms that would ordinarily move resources toward more productive firms and sectors are

themselves weak or blocked. Second, a companion chapter on "shrinking spaces" describes how rising debt burdens, ageing populations in some developing regions, and growing protectionism among advanced economies are narrowing the room within which today's middle-income countries can maneuver, relative to the more permissive global environment in which earlier cohorts of middle-income countries, such as the East Asian tigers, made their transitions (Bank, 2024).

Importantly, the WDR 2024 itself does not treat the 3i sequence as a purely technocratic policy menu. Its authors note that the required transitions demand progressively greater economic freedom, more open public debate, and the political will to reform institutions and long-standing arrangements that vested interests have grown accustomed to defending (Bank, 2024). This is a striking convergence with (Acemoglu & Robinson, 2012) institutional argument, even though the WDR frames the problem primarily in terms of policy sequencing rather than institutional political economy. The present paper's position is that the WDR's own language, disciplining vested interests, building talent, modernizing institutions, is best read as an implicit acknowledgment that the 3i sequence is not merely a technical staircase but a set of transitions that inclusive institutions make possible and that extractive institutions actively obstruct. Investment, infusion, and innovation are, in this reading, proximate mechanisms; the institutional environment identified by Acemoglu and Robinson is the more fundamental cause that determines whether those mechanisms can operate.

Firm Dynamics, Misallocation, and the Innovation Deficit

If institutions are the fundamental cause of the middle-income trap, firm-level dynamics provide the mechanism through which that cause is transmitted to aggregate outcomes such as productivity and growth. (Akcigit et al., 2020) develop a model, calibrated in part to developing-country data, in which entrepreneurs in poorer economies are less able to delegate managerial authority to professional managers than their counterparts in richer economies. Because owner-entrepreneurs face binding limits on the number of tasks they can personally oversee, firms in developing economies hit a ceiling on efficient size well before they exhaust the productive opportunities available to them. The result is a persistent "missing middle": economies characterized by very large numbers of small, often informal, firms and a comparatively small number of large firms, with few firms in between and weak upward mobility from one size class to the other. This pattern, long observed empirically across the developing world, is given a rigorous theoretical foundation in (Akcigit et al., 2020), who show that it can arise even without external financing constraints, purely from limits to managerial delegation.

A closely related contribution, (Acemoglu et al., 2018), models aggregate productivity growth as a process of continual reallocation of factors of production from lower-productivity to higher-productivity firms and establishments, alongside firm-level innovation. In this framework, growth is not simply a function of how much an economy invests or innovates in aggregate, but of how efficiently the economy reallocates resources away from unproductive incumbents and toward more productive entrants and expanding firms. Where reallocation is impeded, whether by distortionary regulation, weak contract enforcement, or the political protection of specific incumbents, an economy can exhibit substantial aggregate investment and even meaningful innovative activity while still growing slowly, because resources remain trapped in low-productivity uses. This is precisely the mechanism that the WDR 2024's discussion of "structural stasis" describes at a more aggregate level (Bank, 2024), and it supplies the missing micro-foundation for that diagnosis.

The institutional literature and the firm dynamics literature connect most directly through the question of what determines which firms survive, grow, and gain access to markets and finance. (Akcigit et al., 2023) show, using rich administrative data, that political connections shape firm-level innovation and dynamics: politically connected firms tend to grow larger and face softer competitive discipline than their productivity would otherwise justify, while non-connected firms face a comparatively harsher selection environment. This finding operationalizes, at the level of the individual firm, exactly the kind of extractive economic institution that (Acemoglu & Robinson, 2012) describe in the abstract: a market in which the rules of entry, competition, and resource access are shaped by political proximity rather than applied impartially. Where

such dynamics are widespread, an economy can accumulate substantial nominal investment, and even isolated pockets of innovation among connected incumbents, without achieving the broad-based reallocation toward productive uses that sustained income convergence requires.

Spatial Development and the Urbanization Constraint

A third channel through which institutions shape the prospects for escaping the middle-income trap operates through cities. (Lall et al., 2017), in a major World Bank study of African urbanization, document that Sub-Saharan African cities have grown rapidly in population but have not achieved a commensurate rise in economic output, and that African cities remain comparatively closed to regional and international trade relative to cities in other developing regions at similar stages of urbanization. Rather than attributing this pattern primarily to insufficient capital investment, (Lall et al., 2017) identify institutional and regulatory constraints, especially dysfunctional land markets, unclear or contested property rights, and poorly coordinated infrastructure investment, as the deeper cause. Where land markets do not function, and where formal and customary claims to land overlap without clear adjudication, firms and households cannot make the kind of long-horizon investments in structures and infrastructure that dense, economically productive cities require.

This spatial argument connects directly to both of the preceding sections. It is, first, a specific instance of the institutional pattern identified by (Acemoğlu et al., 2014): ambiguous, discretionary authority over land, whether vested in customary chiefs, urban planning authorities, or political patrons, is itself an extractive economic institution, since it allows those who control land allocation to extract rents from those who need land for productive use. Second, it is directly relevant to the WDR 2024's infusion stage (Bank, 2024), because cities are typically the primary channel through which foreign direct investment, imported technology, and international trade enter a developing economy and diffuse to the rest of the domestic market. A country whose cities are closed to trade, in the sense of (Africa's Cities: Opening Doors to the World, n.d.), will find infusion difficult regardless of how much it invests in physical capital, because the urban gateway through which technology and organizational practice typically diffuse is constricted.

Kenya as a Case Study: Institutional Legacies and the Investment–Infusion Bottleneck

Income classification and the Vision 2030 target

Kenya first crossed into the World Bank's lower-middle-income category around 2014, following both underlying growth and a statistical rebasing of GDP that incorporated previously undercounted sectors such as communications and real estate. More than a decade later, Kenya remains within the same broad income band: its Atlas-method GNI per capita stood at roughly \$2,200 as of the most recent World Bank classification update, comfortably above the lower-middle-income threshold of approximately \$1,136 but still less than half of the roughly \$4,495 required to reach upper-middle-income status (Breaking Kenya News, 2026). Kenya's Vision 2030 development blueprint set upper-middle-income status as an explicit national target; an independent World Bank assessment concluded that, on the basis of the country's historical growth trajectory, reaching that threshold by the stated deadline was "farfetched" (Africa, 2022). This is the empirical puzzle the remainder of this section addresses: Kenya has sustained multi-decade GDP growth, has diversified beyond primary commodity dependence more than many regional peers, and has produced one of the developing world's most cited financial-technology innovations, yet it has not escaped, and on current trends is unlikely soon to escape, the intermediate income band described by the WDR 2024.

Institutional Legacy

Kenya's institutional history illustrates the (Acemoğlu et al., 2001, 2002) framework with unusual clarity because it was a settler colony in which the colonizer's institutional strategy was internally divided: relatively secure property rights and political voice were extended to a comparatively small European settler population concentrated in the fertile highlands, while the majority African population was governed

through a parallel, more extractive administrative and land-tenure system that alienated substantial agricultural land and restricted African participation in commercial agriculture and formal politics. This dual institutional structure, evocative of the divergence that (Acemoğlu et al., 2014) trace in Sierra Leone's chieftaincy system, meant that Kenya inherited at independence not a single institutional trajectory but two overlapping ones, whose unresolved tension over land rights, in particular, has persisted as a recurring source of political contestation and, at various points, violent conflict.

Post-independence politics in Kenya did not straightforwardly resolve this inheritance toward more inclusive arrangements. Political competition organized substantially along ethno-regional lines, and access to land, public-sector employment, and licensing has functioned, across successive administrations, as a currency of political patronage rather than as a domain governed by impartial, universally applied rules. This pattern is consistent with what (Acemoğlu & Robinson, 2019) describe as extractive political institutions reproducing extractive economic institutions: because political power has depended on the ability to distribute particularistic benefits to coalition members, successive elites have had limited incentive to build the impartial property-rights and market-entry institutions that inclusive economic development requires. The 2010 Constitution, which devolved substantial fiscal and administrative authority to 47 newly created county governments, represents a genuine attempt at institutional reform of the kind that (Acemoğlu & Robinson, 2019) describe as a critical juncture, broadening the number of political actors with a formal stake in governance and, in principle, bringing decision-making over land use, local infrastructure, and business licensing closer to the communities affected by it. However, more than a decade on, implementation has been uneven: county-level institutional capacity varies widely, and devolution has in some documented cases reproduced rather than dissolved patronage dynamics at a more local scale. This is consistent with Acemoglu and Robinson's own caution that critical junctures open a window for institutional change without guaranteeing that the window is used to build more inclusive arrangements.

Firm Dynamics: The Missing Middle and Selective Market Access

Kenya's enterprise landscape displays the missing-middle pattern frequently discussed in the literature: a very large population of micro and informal enterprises, a relatively small number of large, often long-established or politically well-connected firms, and comparatively few medium-sized enterprises that have successfully scaled from the former category into the latter. This pattern is not merely impressionistic. Kenya National Bureau of Statistics data cited in the government's own 2025 draft MSME policy show that, among licensed establishments, 92.2 percent are classified as micro enterprises employing between one and nine workers, 7.1 percent are small, and only 0.7 percent are medium, while unlicensed businesses are uniformly micro in scale (2025). The same policy document explicitly identifies this distribution as evidence of the missing-middle constraint on enterprise growth. Complementary firm-level evidence from the World Bank's Enterprise Surveys of Kenya and from the Central Bank of Kenya's FinAccess surveys (Johnen et al., 2021), which offer a further avenue for testing whether firm survival and size mobility in Kenya are constrained in the specific ways the (Akcigit et al., 2020) model predicts, rather than merely establishing that a missing middle exists in cross-section. Survey and census evidence on Kenyan micro, small, and medium enterprises has repeatedly documented low survival and growth rates among small firms, alongside persistent informality even among firms that have operated for many years, a pattern more consistent with binding constraints on firm growth than with a temporary, transitional phase of enterprise development. Consistent with the mechanism identified by (Akcigit et al., 2020), limits to managerial delegation, reinforced by weak formal contract enforcement that makes owners reluctant to cede day-to-day control to non-family managers, plausibly interact with the political-economy constraints described in Section 6.2, since owners who lack confidence in impartial dispute resolution have additional reason to keep firms small and closely held rather than exposing themselves to the risks of scaling under uncertain institutional protection.

Complementary evidence from the World Bank's Informal Enterprise Surveys of Kenya substantiates this constraint with a direct productivity comparison. Among firms surveyed in 2013, mean monthly sales per

worker for formal micro enterprises, all with fewer than ten employees, stood at approximately KES 190,000, against roughly KES 22,000 for informal firms of comparable size, a productivity ratio of more than eight to one at the mean and close to four to one at the median (Bank, 2016). Only 1.3 percent of the informal firms surveyed had been registered at start-up, and comparison with formal micro enterprises that began life informally suggests that the window for eventual formalization, where it occurs at all, is concentrated in a firm's first one to two years of operation, after which crossover from the informal to the formal segment becomes rare (Bank, 2016). The same study finds that Kenyan informal firms relied overwhelmingly on personal savings and family networks rather than external finance, with 87 percent citing own funds as their primary source of working capital and only 9 percent using banks, while limited access to finance was the single most frequently cited obstacle to operation, named as the top constraint by 59 percent of firms and considered a severe obstacle by 64 percent (Bank, 2016). Perhaps most tellingly for the mechanism of productivity divergence, the same research finds that the productivity gap between formal and informal firms in Kenya was statistically indistinguishable in 2007 but had become pronounced by 2013, a divergence the underlying study associates with a strengthening, rather than a weakening, of the business environment's capacity to sort firms by formality status over that period (Bank, 2016). Read through the present framework, this is a double-edged finding: sharper sorting by formal status is consistent with strengthening market selection in one narrow sense, yet because the large majority of Kenyan enterprises remain informal, given persistently high perceived registration costs and limited perceived benefit from registering, a widening gap between a small, increasingly productive formal segment and a large, stagnant informal segment is not equivalent to the broad-based reallocation toward productive uses that (Acemoğlu et al., 2018) treat as the central engine of aggregate productivity growth. It is, if anything, consistent with an economy in which selection operates cleanly within a narrow formal tier while leaving the much larger informal tier largely undisturbed.

This pattern is not confined to the informal segment. World Bank Enterprise Survey data on Kenya's formal private sector show that competition from informal firms was the most frequently cited top obstacle to operation among registered establishments in both 2013 and 2018, ahead of access to finance, political instability, and corruption (Country Highlights: Kenya 2018 Enterprise Survey, n.d.). Access to finance itself became more binding for formal firms over the same period: the share of firms citing it as their top obstacle rose from 9 percent in 2013 to 19 percent in 2018, even as the share of firms financing investment or working capital through banks fell, from 43 percent to 32 percent for investment finance and from 41 percent to 36 percent for working capital finance (Surveys, 2020). Formal-sector labor productivity growth also turned negative between 2016 and 2018, a decline driven disproportionately by large firms with 100 or more employees, which experienced roughly a 15 percent contraction compared with approximately 5 percent for small and medium firms (Surveys, 2020). This last figure complicates a purely missing-middle account of Kenya's stalled reallocation, since it indicates that productivity difficulties in this period were not confined to small and micro firms but extended to Kenya's largest formal establishments as well, consistent with the broader diagnosis that reallocation efficiency, not firm size as such, is the binding constraint identified by (Acemoğlu et al., 2018).

At the same time, the pattern documented by (Akcigit et al., 2023), in which politically connected firms achieve growth and market access disproportionate to their underlying productivity, has clear echoes in Kenyan sectors where licensing, public procurement, or land allocation are controlled by political authority, including construction, land development, and segments of agribusiness and public contracting. Where entry and expansion in a sector depend materially on political access rather than on price and quality competition, the reallocation mechanism that (Acemoğlu et al., 2018) identify as central to productivity growth is correspondingly weakened: capital and labor that a purely competitive market would reallocate toward more productive uses instead remain committed to politically protected but not necessarily more productive incumbents.

Kenya's telecommunications-enabled mobile money system, most closely associated with the M-Pesa platform, is frequently cited internationally as a genuine 2i, and in some respects 3i-adjacent, success story:

a domestically adapted, subsequently globally influential innovation built on infused mobile technology. Its emergence is instructive precisely because it occurred in a sub-sector, mobile telecommunications, where regulatory entry was comparatively transparent and competitive relative to land, agribusiness licensing, or large-scale public procurement. Read through the framework developed here, the mobile money case does not contradict the institutional argument; it illustrates it. Where Kenyan institutions have approximated the impartial, contestable rules that (Acemoglu & Robinson, 2012) associate with inclusive economic institutions, firm-level dynamism and innovation of the kind the WDR 2024's infusion and innovation stages require have followed. The policy question, addressed in Section 8, is how such pockets of relative institutional openness might be extended to other sectors of the Kenyan economy rather than remaining an exception.

Spatial Development: Nairobi, Secondary Cities, and Closed Urban Markets

Kenya's urban system displays the pattern that (Lall et al., 2017) describe for African cities generally: rapid population growth concentrated overwhelmingly in Nairobi as a primate city, with secondary urban centers such as Mombasa, Kisumu, and Nakuru growing in population without a commensurate rise in their production of tradable goods and services for regional or international markets. Land-market dysfunction of the kind (Lall et al., 2017) identify as a general African constraint is especially salient in Kenya given the unresolved land-tenure legacy discussed in Section 6.2: overlapping statutory, customary, and informally settled claims to urban and peri-urban land raise the cost and uncertainty of large-scale, coordinated infrastructure and real-estate investment, discouraging exactly the kind of dense, well-connected urban development that supports agglomeration economies. The 2010 constitution's devolution of planning authority to county governments was, in principle, an opportunity to develop secondary cities as additional gateways for trade and technology infusion, distributing the WDR 2024's infusion channel more broadly across the country rather than concentrating it in Nairobi. In practice, most county governments have lacked the technical planning capacity, and in some cases the incentive structure independent of national political patronage networks, to execute the kind of coordinated land and infrastructure investment that (Lall et al., 2017) identify as necessary.

Firm-level trade data corroborate this closedness and suggest it may be deepening rather than resolving. Among Kenya's formal private establishments, the share of firms exporting, directly or indirectly, at least 1 percent of sales fell from 35 percent in 2013 to 21 percent in 2018, and the share of total sales exported directly fell from 11 percent to 5 percent over the same period, a decline that left Kenyan firms' export intensity close to the average for lower-middle-income economies generally rather than distinguishing Kenya as an outward-oriented exception within that group (Surveys, 2020). Over the same period, the share of firms' inputs of foreign origin rose from 27 percent to 36 percent, moving closer to global and lower-middle-income averages (Surveys, 2020). Read together, these figures suggest an asymmetric pattern of openness: Kenyan formal firms have become somewhat more willing or able to import foreign inputs and technology, consistent with limited progress on the infusion side of the WDR 2024's 2i stage, while simultaneously becoming less engaged as exporters, which is difficult to reconcile with the sustained outward orientation that successful 2i and 3i transitions elsewhere have generally required. This asymmetry is consistent with the spatial argument advanced by (Lall et al., 2017): a city, or a national urban system, can absorb imported inputs without necessarily developing the tradable-sector competitiveness that would allow its firms to sell into regional and global markets, particularly where land-market dysfunction and infrastructure coordination failures raise the cost of scaling export-oriented production.

Synthesis of the Kenyan Case

Positioned against the WDR 2024's 3i framework, Kenya appears to be a country still substantially engaged in 1i, investment-led growth, with pockets of successful 2i infusion concentrated in sectors, most notably telecommunications, where institutional openness has been greatest, and very limited movement toward a broad-based 3i, innovation-led growth strategy. The argument advanced here is that this pattern is not adequately explained by insufficient investment, since Kenya has sustained substantial multi-decade capital

formation (Systematic Country Diagnostic, n.d.), nor by an absence of technological opportunity, since the mobile money case demonstrates domestic capacity for globally significant innovation under the right conditions. It is better explained by the uneven, sector-specific character of Kenya's institutional environment: where political and economic institutions approximate the impartial, contestable rules that (Acemoğlu & Robinson, 2012) describe as inclusive, firm dynamics and urban development follow the WDR's 3i trajectory; where institutions remain extractive in the sense of that same framework, firms remain small or protected rather than competitively selected, and cities remain closed rather than open, reproducing the structural stasis that the WDR 2024 itself identifies as the proximate cause of the middle-income trap.

DISCUSSION

Toward an Integrated Framework

The three literatures reviewed in this paper are best understood as operating at different levels of a single causal chain rather than as competing explanations of the middle-income trap. Political institutions, in the (Acemoğlu & Robinson, 2012) sense, determine the rules governing property rights, market entry, and the impartiality of dispute resolution. Those rules in turn determine firm-level dynamics: whether managerial delegation is feasible, whether market selection rewards productivity or political connection, and whether resources reallocate toward more productive uses, as modelled by (Akcigit et al., 2020), (Acemoğlu et al., 2018), and (Akcigit et al., 2023). The same institutional rules also determine the functioning of land and urban infrastructure markets, and therefore whether cities can perform the gateway function that (Lall et al., 2017) identify as central to African urban development. Finally, the joint outcome of firm-level reallocation efficiency and urban openness determines which of the WDR 2024's 1i, 2i, or 3i growth strategies is actually available to a country, regardless of which strategy its official development plans nominally target (Bank, 2024).

This synthesis carries an important implication for how the middle-income trap should be diagnosed in Sub-Saharan African economies more broadly. A diagnosis that stops at the WDR 2024's proximate level, concluding that a country needs "more infusion" or "more innovation," risks treating investment, infusion, and innovation as freely selectable policy levers, when the evidence assembled here suggests that a country's institutional environment substantially determines which of those levers is actually within reach. The Kenyan case suggests, more specifically, that institutional quality is unlikely to be uniform within a single country: sectors and localities where political and economic institutions are comparatively inclusive can generate genuine 2i and even 3i outcomes, as mobile money illustrates, even while the surrounding economy remains locked in a 1i pattern. This heterogeneity, rather than a single national institutional "score," may be the more useful unit of analysis for both researchers and policymakers seeking to understand, and eventually loosen, the middle-income trap in Sub-Saharan Africa.

Policy Implications

Three sets of implications follow from the framework developed above, each targeted at extending the institutional conditions under which Kenya's mobile money experience arose to a broader set of sectors and localities.

Land and property-rights reform. Because ambiguous and overlapping land claims recur throughout the institutional, firm-level, and spatial channels examined in this paper, harmonizing statutory and customary land tenure, and making land-allocation decisions more transparent and less discretionary at both national and county levels, would plausibly loosen constraints across all three channels simultaneously, consistent with the priority (Africa's Cities: Opening Doors to the World, n.d.) places on functioning land markets for African urban development.

Competitive, rules-based market entry. Extending the comparatively transparent, competitively contestable regulatory approach that characterized Kenya's telecommunications sector to other sectors where

licensing and procurement remain politically gatekept would, following the logic of (Akcigit et al., 2023) and (Acemoğlu et al., 2018), improve the reallocation of resources toward more productive firms and reduce the missing-middle pattern documented in Section 6.3.

Deepening Devolution's Institutional Promise

Because the 2010 Constitution represents Kenya's clearest recent critical juncture in the (Acemoğlu & Robinson, 2012) sense, investment in county-level planning and public financial management capacity, together with mechanisms that insulate county land and licensing decisions from national and local patronage networks, would help determine whether devolution ultimately produces more inclusive local institutions or instead reproduces extractive dynamics at a smaller geographic scale.

A general caution follows from the WDR 2024's own observation that institutional reform requires political will as much as technical design (Bank, 2024): transplanting formally "best-practice" institutional arrangements without a corresponding shift in the underlying distribution of political power risks what has elsewhere been termed isomorphic mimicry, the adoption of institutional form without institutional function (Pritchett et al., 2012). The framework developed in this paper suggests that reform efforts targeted at sectors and localities where political contestability is already comparatively high, building on rather than bypassing Kenya's existing pockets of institutional openness, may offer a more tractable path than economy-wide institutional overhaul attempted all at once.

LIMITATIONS AND DIRECTIONS FOR FUTURE RESEARCH

This paper has several limitations that suggest directions for future research. First, it relies on a single-country case study, and while Kenya's institutional history and available evidence make it a clear illustration of the integrated framework, the generalizability of its specific findings to other Sub-Saharan African middle-income economies, such as Ghana, Côte d'Ivoire, Zambia, or Cameroon, each with distinct colonial and post-independence institutional trajectories, remains to be established through structured comparative case studies. Second, while Section 6.3 and Section 6.4 now draw on published aggregate indicators from the Kenya Informal Enterprise Survey and the World Bank Enterprise Surveys rather than purely qualitative characterization, these remain descriptive cross-tabulations rather than a formal econometric test of the underlying mechanism; a natural extension would be to apply the empirical methodology of (Akcigit et al., 2020) and (Akcigit et al., 2023) directly to the underlying WBES firm-level microdata, which requires registered access to the World Bank Microdata Library, to estimate the magnitude of managerial delegation constraints and any political-connection premia with formal regression evidence rather than descriptive statistics. Third, the spatial analysis in Section 6.4 would benefit from georeferenced data on secondary-city trade flows and land-price dispersion of the kind used in (Africa's Cities: Opening Doors to the World, n.d.)'s continent-wide study, applied specifically to Kenya's devolved counties. Addressing these gaps would allow the integrated institutional, firm-dynamics, and spatial framework proposed here to be tested more formally, and would permit a more confident assessment of which specific reforms are likely to yield the largest gains.

Several existing Kenyan data sources are well suited to closing these gaps. The Kenya National Bureau of Statistics' periodic Micro, Small and Medium Enterprises surveys, provide establishment-level data on firm size, formality, sector, and geography that could be used to estimate size-class transition probabilities directly. The World Bank's Enterprise Surveys of Kenya, fielded in 2007, 2013, and 2018, include a panel and cover finance access, competition, innovation, and business–government relations at the establishment level, making them directly usable for an Akcigit-style test of selection and reallocation efficiency. For the spatial channel, county-level land and infrastructure data collected under Kenya's devolved government structure, together with the World Bank's subnational Enterprise Survey strata, could support a Kenya-specific replication of the (Lall et al., 2017) urban-openness analysis at the level of individual counties rather than the country as a whole.

CONCLUSION

(Acemoglu & Robinson, 2012) contention that comparative development is ultimately a matter of "institutions, institutions, institutions" is often received as a claim pitched at a level of abstraction too high to guide specific policy diagnosis in any single country. This paper has argued that, applied to the case of a contemporary Sub-Saharan African middle-income economy, that claim can be operationalized through two more concrete channels: the firm-level dynamics of market selection and resource reallocation examined by Akcigit and coauthors (Lack of Selection and Limits to Delegation: Firm Dynamics in Developing Countries, n.d.), and the spatial dynamics of urban land and trade openness (Venables, 2005). Read together with recent diagnoses of the middle-income trap (Behuria & Sumner, 2025), these literatures suggest that Kenya's stalled transition from investment-led to infusion- and innovation-led growth reflects a genuinely institutional constraint, one whose colonial origins the country has not fully resolved and whose post-independence political economy has, in important respects, reproduced. Kenya's own mobile money success (Onsongo, 2017) demonstrates that the country possesses the underlying capacity for globally significant innovation once institutional conditions permit it. The central policy challenge identified by this paper is therefore not the discovery of new capacity, but the extension of the comparatively inclusive institutional conditions that produced that success to the wider economy. The same diagnostic approach, integrating institutional political economy, firm dynamics, and spatial development, may prove useful for understanding the middle-income trap across the growing number of Sub-Saharan African economies now facing a similar transition.

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